

Franking account tax return and instructions 2012

To help you complete the franking account tax return for
1 July 2011 – 30 June 2012



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This publication was current at **May 2012**.

WHO MUST LODGE A FRANKING ACCOUNT TAX RETURN?

The *Franking account tax return 2012* must be completed for all Australian corporate tax entities and New Zealand franking companies that have:

- a liability to pay franking deficit tax (FDT)
- a liability to pay over-franking tax (OFT), or
- an obligation to notify the Commissioner of Taxation in relation to any significant variation in their benchmark franking percentage between franking periods.

If there is such a liability or notification obligation, the entity is required to complete section A and the remaining items on the franking account tax return that are relevant to that liability and/or obligation. If there is no such liability or notification obligation, lodgment of this tax return is not necessary.

An entity is a corporate tax entity for the purposes of Part 3-6 of the *Income Tax Assessment Act 1997* (ITAA 1997) at a particular time if the entity is a company at that time, or a corporate limited partnership, corporate unit trust or a public trading trust in relation to the income year in which that time occurs.

A company is a New Zealand franking company if the company:

- is a New Zealand resident company, and
- has made an election to join the Australian imputation system.

The Australian imputation rules generally apply to a New Zealand franking company in the same way as they apply to an Australian corporate tax entity.

PERIOD BOXES 'OR SPECIFY IF PART YEAR OR APPROVED SUBSTITUTE PERIOD'

The *Franking account tax return 2012* is for the period 1 July 2011 to 30 June 2012. Complete the period boxes at the top of the return with the start of the period covered by this tax return to the end of the period if the entity:

- is an **early balancing** corporate tax entity
- is a **late balancing** corporate tax entity (see below), or
- ceases to be a franking entity part way through its income year or, in the case of a New Zealand franking company, when its election to join the Australian imputation system is revoked or cancelled part way through its income year.

An early or late balancing corporate tax entity is one that has obtained the Commissioner's permission to use an income year that ends on a date other than 30 June. These companies are granted an approved substituted accounting period (SAP) which is in lieu of an income year ending on 30 June (the standard income year).

Generally, an early balancing corporate tax entity is one that has its income year end before 30 June, while a late balancing corporate tax entity generally has its income year end after 30 June. For more information on SAPs, see *Practice Statement PS LA 2007/21: Substituted Accounting Periods*.

EXAMPLE 1

MHO Ltd has an approved substituted accounting period ending on 30 September 2012 in lieu of 30 June 2012 – that is, MHO Ltd is a late balancing corporate tax entity. MHO Ltd does not elect to have its FDT liability determined on a 30 June basis. At the end of the day on 30 September 2012, MHO Ltd has a debit balance in its franking account and consequently it has a liability to pay FDT. MHO Ltd would complete the period boxes as follows:

Day	Month	Year		Day	Month	Year
0	1	1	0	2	0	1
1	1	1	to	3	0	9
				2	0	1

or specify period if part year or **approved substitute period**

A late balancing corporate tax entity that has elected to have its FDT liability determined on a 30 June basis must complete the period boxes with 01/07/2011 to 30/06/2012.

Late balancing corporate tax entities that elect to have their FDT liability determined on 30 June

A late balancing corporate tax entity may choose to have its FDT liability, if any, determined on a 30 June basis, rather than at the end of its income year.

If a late balancing corporate tax entity makes this choice and it has a debit balance in its franking account on 30 June 2012, then it will be required to lodge a *Franking account tax return 2012* to account for this FDT liability, on or before 31 July 2012. This same entity will also be required to lodge a subsequent franking account tax return within one month after the end of its income year if it has to:

- account for any OFT liability, or
- notify any significant variation in its benchmark franking percentage between franking periods.

The OFT liability, if any, must be paid by the last day of the month immediately following the end of the income year. For more information on OFT and the disclosure obligation, see **Over-franking tax** on page 8; and **Significant variation in benchmark franking percentage** on page 9, section C.

R&D entities entitled to the R&D refundable tax offset

A corporate tax entity which satisfies certain requirements may be eligible for the research and development (R&D) refundable tax offset under Division 355 of the ITAA 1997. Special rules ensure that the amount of R&D tax offset refunded is not immediately clawed back as a result of the entity becoming liable to franking deficit tax, due to a debit normally arising in an entity's franking account at the time of receiving a refund of income tax. The franking debit that usually arises when a refund of income tax is received is effectively deferred (deferred franking debits) in relation to refundable R&D tax offset amounts.

A corporate tax entity receiving the R&D refundable tax offset will not record any franking credit in its franking account for either future PAYG instalments, or payments of income tax **until such time** as any prior deferred franking debits are effectively offset by these types of franking credits. Other types of franking credits are not affected by these rules.

The following example illustrates how a corporate tax entity accounts for any deferred franking debits in current and future years.

RI Pty Ltd is an R&D entity. Over three years, it has the following transactions that would affect its franking account:

	Refund of income tax	Income tax paid
Year 1	\$45,000	\$0
Year 2	\$0	\$30,000
Year 3	\$0	\$36,000

Year 1

The refund of income tax in year 1 was as a result of RI Pty Ltd receiving a refundable R&D tax offset. Therefore, although ordinarily a debit would arise in its franking account in year 1 for a refund of income tax, no debit will arise in year 1 and this amount will be a deferred franking debit. RI Pty Ltd must keep records that detail the calculation of a franking debit that would otherwise have arisen from the payment of the R&D refundable tax offset (deferred franking debit).

Year 2

In year 2, RI Pty Ltd pays income tax of \$30,000, which would ordinarily give rise to a credit in its franking account of \$30,000. However, the company must take into account any current or prior year deferred franking debits. As RI Pty Ltd had a deferred franking debit in year 1, this needs to be taken into account prior to a credit amount arising in its franking account.

The following method statement illustrates how this is taken into account:

STEP 1 Identify any income years before the payment of tax was made for which the company received a refund of income tax.

For RI Pty Ltd this was year 1.

STEP 2 Add up the part of the refund that is attributable to a tax offset that is subject to the refundable tax offset rules.

For RI Pty Ltd, the amount of R&D tax offset received was \$45,000.

STEP 3 Subtract any reduction of a franking credit for any earlier payment by the entity.

RI Pty Ltd has not previously applied any credit against their deferred franking debit. The result after applying the method statement for year 2 is \$45,000. Therefore, the franking credit of \$30,000 is reduced to zero. Consequently, no franking credit arises in RI Pty Ltd's franking account in year 2.

The excess amount of the deferred franking debit will need to be taken into account when a future PAYG instalment amount or income tax is paid.

Year 3

In year 3, RI Pty Ltd pays income tax of \$36,000, which would ordinarily give rise to a credit in its franking account of \$36,000. However, the company must take into account any current or prior year deferred franking debit. The following method statement is again applied:

STEP 1 Identify any income year before the payment of tax was made for which the company received a refund of income tax.

For RI Pty Ltd this was year 1.

STEP 2 Add up the part of the refund that is attributable to a tax offset that is subject to the refundable tax offset rules.

For RI Pty Ltd, the amount of R&D tax offset received was \$45,000.

STEP 3 Subtract any reduction of a franking credit for any earlier payment by the entity.

\$30,000 was applied against the year 1 deferred franking debit in year 2. The result after applying the method statement for year 3 is \$15,000. Therefore, the franking credit of \$36,000 is reduced by \$15,000. As the deferred franking debits are now fully recovered, a franking credit of \$21,000 arises in RI Pty Ltd's franking account in year 3.

SECTION A

Complete the entity's name, address and Australian business number (ABN), and the remaining items in section A. All parts of section A must be completed for this franking account tax return to be complete.

IS THIS A SUBSEQUENT FRANKING ACCOUNT TAX RETURN FOR THE INCOME YEAR?

Only answer **YES** if this is a subsequent franking account tax return that is being lodged because **either**:

- the corporate tax entity has received a refund of income tax that affects its FDT liability: see **A refund of income tax affecting a franking deficit tax liability** on page 5, or
- the corporate tax entity is a late balancing entity that
 - elected to have its FDT liability determined on a 30 June basis
 - was required to lodge a franking account tax return on or before 31 July 2012 disclosing an FDT liability, and
 - has an OFT liability or an obligation to disclose a significant variation in its benchmark franking percentage.

If this is a subsequent franking account tax return for the income year, print **X** in the **Yes** box at this question; otherwise print **X** in the **No** box.

For more information, see **Over-franking tax** on page 8; and **Significant variation in benchmark franking percentage** on page 9, section C.

WHAT IS YOUR FRANKING ACCOUNT BALANCE AT THE END OF THE PERIOD?

Write the amount of your entity's franking account balance (including nil balances) at the end of the income year (or the 12-month period ending on 30 June); **or** immediately before it ceased to be a franking entity; **or**, in the case of a New Zealand franking company, when its election to join the Australian imputation system is revoked or cancelled. In the code box next to the amount, print **S** if you have a surplus, or **D** if you have a deficit.

WHAT IS YOUR VENTURE CAPITAL SUB-ACCOUNT BALANCE AT THE END OF THE PERIOD?

If your entity is a pooled development fund (PDF) or it ceased to be a PDF during the income year, write the amount of your venture capital sub-account balance (including nil balances) at the end of the income year (or the 12-month period ending on 30 June); **or** immediately before the entity ceased to be a PDF. In the code box next to the amount, print **S** if you have a surplus; **or D** if you have a deficit. If your entity is not a participating PDF and you do not know the balance of your venture capital sub-account, print **UNKNOWN** instead of the amount.

YOU MAY BE ENTITLED TO THE FULL AMOUNT OF YOUR CURRENT YEAR FDT OFFSET

A corporate tax entity which satisfies the residency requirement for imputation purposes for an income year (the relevant year) is able to claim the whole or part of the amount of its FDT liability incurred in that year as a tax offset against its income tax for that, or a subsequent, relevant year.

The maximum offset that an entity is entitled to claim is the amount of the FDT liability. However, this is reduced where the FDT liability attributable to certain debits that arose in the franking account for the relevant year is greater than 10% of the total franking credits that arose in the franking account for the relevant year. This is known as the 'FDT offset reduction rule'. There are some exceptions. See below.

For certain late balancing entities the relevant year is the 12-month period ending on 30 June. Special provisions apply to these entities which may affect the calculation of the offset.

Which franking debits trigger the application of the FDT offset reduction rule?

The FDT offset reduction will only apply for an income year in which the franking deficit is attributable to certain franking debits ('attributable debits'). Principally, these are debits that arise under items **1, 3, 5 or 6** of the table in section 205-30 of the ITAA 1997. These debits arise in circumstances where an entity has, directly or indirectly, made a franked distribution.

Item 1	Franking debits that arise when an entity franks a distribution
Item 3	Franking debits that arise when an entity franks a distribution in contravention of the benchmark rule
Item 5	Franking debits that arise when a distribution by one entity is substituted for a distribution by another entity
Item 6	Franking debits that arise when a tax exempt bonus share is issued in substitution for a franked distribution

If an entity has one or more of these debits, then the attributable debits also include debits arising under item **2** of the table (franking debits that arise from a refund of income tax).

Print **F** in the code box if the entity had a franking deficit but did **not** have any item **1, 3, 5 or 6** franking debits in the franking account in the income year in which the deficit arose. The FDT offset reduction will not apply in this case.

Exception for private companies with no previous income tax liability

The FDT offset reduction will not apply if:

- (a) the entity is a private company for the relevant year
- (b) the company has not had an income tax liability for any income year before the relevant year
- (c) the company would have had an income tax liability for the relevant year if it did not have the tax offset (but had all its other tax offsets) **and**
- (d) the amount of the liability referred to in paragraph (c) is at least 90% of the amount of the deficit in the company's franking account at the end of the relevant year.

Print **P** in the code box if the entity had item **1, 3, 5 or 6** debits and is a private company that satisfies all the criteria in (a) to (d) above.

Commissioner's discretion where a deficit arose due to events beyond the entity's control

The Commissioner has a discretion not to apply the FDT offset reduction where events that caused the deficit were outside the control of the company. The Commissioner will generally consider a franking deficit to have arisen due to circumstances that were outside the entity's control if the events that gave rise to the deficit were not readily foreseeable and could not be influenced by the company, and no broader exploitation of the imputation system is involved.

For example, a company franks a distribution part way through an income year in the reasonable expectation that its future quarterly pay as you go (PAYG) instalment payments in the income year would be sufficient to ensure that it would not have a deficit in its franking account at the end of the income year. An unexpected downturn in business has resulted in the company's future quarterly PAYG instalment payments being less than expected. In these circumstances, it would be expected that the Commissioner would make a determination to allow the full tax offset.

Print **C** in the code box if the entity wishes to apply for the discretion referred to above, and provide an attachment to the franking account tax return which outlines the circumstances in which the FDT liability arose. Ensure that the attachment is clearly titled **Franking deficit tax – request for exercise of Commissioner's discretion**. The attachment must include the following information:

- entity name and tax file number (TFN)
- income year in which the FDT liability arose and the amount of the franking deficit, **and**
- detailed reasons why the deficit arose due to events that were unanticipated or outside the control of the entity.

The attachment must be signed by the public officer of the company or an agent duly authorised by the company. We will consider each application on a case-by-case basis and will notify the applicant of our decision.

SECTION B

FRANKING DEFICIT TAX AND OVER-FRANKING TAX

If you are a corporate tax entity that received the R&D refundable tax offset during the period to which the franking account return relates (or you received the R&D refundable tax offset in an earlier period), you should only include franking credits arising from either payments of PAYG instalments or income tax after all deferred franking debits have been utilised.

For more information, see **R&D entities entitled to the R&D refundable tax offset** on page 1.

CREDITS THAT AROSE IN YOUR FRANKING ACCOUNT

Show at **A** the total franking credits that arose in the franking account for the period to which this franking account tax return relates. This amount is the total of all franking credits that arose in the franking account during the income year (or the 12-month period ending on 30 June, for certain late balancing corporate tax entities).

The total amount of franking credits that arose in the franking account in an income year:

- does not include the opening balance of the franking account for the income year, but
- does include a credit that arises at the beginning of the income year as a result of an FDT liability that is incurred at the end of the previous income year.

The amount at **A** should reflect a 'tax paid' basis. As a result of the introduction of the simplified imputation system on 1 July 2002, all corporate tax entities are required to maintain a franking account that reflects a 'tax paid' basis. Consequently, the former class C franking account balance, which reflected a 'taxed income' basis, had to be converted on 1 July 2002.

Total franking credits for subsidiary members moving in and out of the consolidation regime

When a corporate tax entity becomes a subsidiary member of a consolidated group, it must determine its franking account balance just before the time of entry (the 'joining time'). If the subsidiary has a deficit balance in its franking account just before the joining time, it is liable to pay FDT. The period during the income year before the joining time or after exit from the consolidated group is a 'non-membership period'. If there is a liability to pay FDT, the subsidiary must show at **A** the total franking credits that arose during the non-membership period ending immediately before the joining time.

During the period in which a corporate tax entity is a subsidiary member of a consolidated group, its franking account continues to exist but is inoperative. While the subsidiary member's franking account is inoperative, any franking credits or debits that would have arisen in the subsidiary's franking account if the subsidiary were not a member are instead attributed to the franking account of the head company. This includes entries relating to a non-membership period but which came about during the membership period.

Where a corporate tax entity has operated outside the group for more than one non-membership period during a particular income year, the amount of franking credits that arose for that year is worked out by calculating the amount of franking credits that arose for each non-membership period. The subsidiary member's total franking credits received for the income year, shown at **A**, is the total of the credits that arose in each non-membership period.

The amount shown at **A** **Credits that arose in your franking account** for the period in this franking account tax return does not necessarily equal the amount shown at **J** **Franking credits** item 7 on the *Company tax return 2012*. Amounts at **A** relate to all the franking credits that arose in the franking account during the period to which this franking account tax return relates. By contrast, **J** item 7 on the company tax return relates only to franking credits that arose because of franked distributions received during the income year.

FRANKING DEFICIT TAX

Under the simplified imputation system, a liability to pay FDT will arise where **one** of the following occurs:

- A corporate tax entity has a franking deficit in its franking account at the end of its income year; **or** at the time it ceases to be a franking entity; **or**, in the case of a New Zealand franking company, when its election to join the Australian imputation system is revoked or cancelled.
- The subsidiary has a franking deficit in its franking account just before the entity becomes a subsidiary member of a consolidated group.
- A corporate tax entity receives certain refunds of income tax within three months after the end of the income year, **or** within three months after it ceases to be a franking entity, and a franking deficit (or an increase in a franking deficit) would have arisen if the refund had been received in the income year. For more information, see **A refund of income tax affecting a franking deficit tax liability** on the next page.

A franking entity is a corporate tax entity that is not a mutual life insurance company. Where the entity is a company that is a trustee of a trust, it will be a franking entity at a particular time if it is not acting in its capacity as trustee of the trust at that time.

A late balancing corporate tax entity that elects to have its FDT determined on a 30 June basis will be liable to pay FDT where a franking deficit exists at the end of 30 June or immediately before it ceases to be a franking entity or, in the case of a New Zealand franking company, when its election to join the Australian imputation system is revoked or cancelled. It will also be liable to pay FDT if it receives certain refunds of income tax within three months of the period ending on 30 June: see **A refund of income tax affecting a franking deficit tax liability** on the next page, see also **Late balancing corporate tax entities that elect to have their FDT liability determined on 30 June** on page 1.

A franking deficit exists where the total amount of franking debits exceed the total amount of franking credits.

Show at **B** the sum of the amounts of the franking deficit in the franking account:

- at the end of the income year (or the 12-month period ending on 30 June) **or** at the time the entity ceased to be a franking entity **or**, in the case of a New Zealand franking company, when its election to join the Australian imputation system is revoked or cancelled, taking into account any refunds taken to have been received in that period (see **A refund of income tax affecting a franking deficit tax liability** in the next column), and
- if applicable, just before the entity becomes a subsidiary member of a consolidated group.

This is the amount of FDT that is payable.

Where a corporate tax entity incurs an FDT liability, it is generally able to claim the whole or part of that amount as a tax offset against its future income tax liabilities. See **Offsettable portion of current year FDT** on page 6 for more information.

If you are required to complete **F** (see **A refund of income tax affecting a franking deficit tax liability** in the next column) then you must include the amount shown at **F** (if any) in the amount at **B**.

FDT liability for subsidiary members moving in and out of the consolidation regime

Where a corporate tax entity becomes a subsidiary member of a consolidated group, it must determine its franking account balance just before the time of entry (the 'joining time'). If the subsidiary has a franking deficit in its franking account just before the joining time, it is liable to pay FDT. Include at **B** the amount of franking deficit in the franking account just before the joining time.

The period during the income year before the joining time or after exit from the consolidated group is a 'non-membership period'. There could be multiple exits and entries within one income year. Where a corporate tax entity has operated outside the group for more than one period during a particular income year, the amount of FDT liability that arose for that year is worked out by calculating the amount of franking deficit balance that was in the franking account just before each of the joining times. Include at **B** the total of the deficit balances that were in the subsidiary member's franking account just before each of the joining times.

Where a corporate tax entity has more than one non-membership period during a particular income year, attach a letter to the franking account tax return detailing the amount of credits that arose in your franking account and the franking tax liability for each non-membership period. Also provide the name of the head company of each consolidated group of which your company was or is a member. We need this information to process your franking account tax return correctly.

EXAMPLE 2

Melmott Ltd has an income year from 1 July 2011 to 30 June 2012. On 1 October 2011, Melmott Ltd became a subsidiary member of a consolidated group and then exited the group on 1 February 2012. On 1 April 2012, Melmott Ltd became a member of another consolidated group and at 30 June 2012 was still a member of this other consolidated group.

In calculating its FDT liability for the income year, Melmott Ltd must determine the deficit balances that it had in its franking account just before it joined each of the consolidated groups.

Melmott Ltd's non-membership periods, the franking deficit balances and the total franking credits that arose during each non-membership period are as follows:

Non-membership period	Balance in franking account just before the joining time	Total franking credits during non-membership period
1 July 2011 to 30 September 2011	\$500 Dr – a franking deficit	\$200 Cr
1 February 2012 to 31 March 2012	\$400 Dr – a franking deficit	\$100 Cr

Melmott Ltd would show the total franking credits that arose in the franking account for each non-membership period (\$300) at **A** and the total of the FDT balances (\$900) at **B**. Melmott Ltd would also provide the information in the above table, as well as the name of the head company of each consolidated group of which it was or is a member, as an attachment to the franking account tax return.

A REFUND OF INCOME TAX AFFECTING A FRANKING DEFICIT TAX LIABILITY

An entity is taken to have received an income tax refund for an income year immediately before the end of the income year or immediately before it ceased to be a franking entity if:

- the refund is paid within three months after the end of the income year or within three months after it ceased to be a franking entity (and it is attributable to a period in the year during which the entity was a franking entity), and
- the franking account would have been in deficit, or in deficit to a greater extent, at the end of that income year or immediately before it ceased to be a franking entity, had the refund been received during the income year or before the entity ceased to be a franking entity.

This rule ensures that an entity does not avoid FDT by deferring the time at which a franking debit occurs in its franking account.

Some late balancing corporate tax entities may elect to have their FDT liability determined on 30 June. If a late balancing corporate tax entity makes this election it will be taken to have received an income tax refund immediately before 30 June or immediately before it ceased to be a franking entity if:

- the refund is received either within three months after 30 June, **or** within three months immediately after it ceased to be a franking entity
- the refund is attributable to the 12-month period ending on 30 June, **or** is attributable to a period within that 12 months during which the entity was a franking entity, and
- the franking account would have been in deficit, **or** in deficit to a greater extent, at the end of 30 June or immediately before it ceased to be a franking entity, had the refund been received immediately before 30 June, **or** immediately before it ceased to be a franking entity.

If you receive a refund of the kind explained above and you are already obliged to lodge (and have not yet lodged) a franking account tax return, then you can account for the refund and your other liabilities or obligations in a single return. If you do not account for the refund in that single return, then you need to account for it in a further return. If you do account for the refund in a further return:

- print **X** in the **Yes** box at section A, **Is this a subsequent franking account tax return for the income year?**, and
- write the amount of the FDT attributable to the refund of income tax in section B, **F FDT attributable to refund**. Do not complete **F** unless this franking account tax return is a **further return**. Remember, you must include the amount at **F** (if any) in the amount at **B**.

Amount of FDT

If, before receipt of the refund, there is a franking deficit at the end of the income year (or the 12-month period ending on 30 June) or immediately before the entity ceased to be a franking entity, then the amount of the franking deficit that should be written at **B** is that deficit plus the amount of the refund.

If, before receipt of the refund, there is no franking deficit at the end of the income year (or the 12-month period ending on 30 June) or immediately before the entity ceased to be a franking entity, then the franking deficit that should be written at **B** is the amount of the refund reduced by the franking surplus (if any) existing at that time.

If you have completed **F** then the amount written at that item must be included in the amount at **B**. Any FDT that you have already paid will be taken into account.

Lodgment and payment date

The time for lodgment of a franking account tax return that accounts for a refund of income tax will depend on whether a franking account tax return is outstanding at the time the refund is received.

A franking account tax return is an **outstanding return** at the time a refund of income tax is received if **all** the following apply:

- you are required to lodge a franking account tax return (for example, because the entity's franking account was in deficit at the end of its income year or immediately before it ceased to be a franking entity)
- the time for lodging its franking account tax return has not yet passed, **and**
- the franking account tax return has not yet been lodged.

For certain late balancing corporate tax entities that elect to have their FDT liability determined on a 30 June basis, a franking account tax return is outstanding if:

- you are required to lodge a franking account tax return (for example, because the entity's franking account was in deficit at the end of 30 June or immediately before it ceased to be a franking entity)
- the time for lodging its franking account tax return has not yet passed, **and**
- the franking account tax return has not yet been lodged.

If there is no outstanding return when a refund is received, then the franking account tax return that accounts for the refund must be lodged and any FDT liability must be paid no more than 14 days after the refund has been received.

If there is an outstanding return when the refund is received, then the outstanding return has to be lodged and any FDT or OFT paid by the last day of the month following the end of the income year (or the 12-month period ending on 30 June). The refund may or may not be accounted for in the outstanding return. If it is not accounted for in that return then an additional return is required. This additional return has to be lodged (and the additional FDT has to be paid) within 14 days after the refund was received.

OFFSETTABLE PORTION OF CURRENT YEAR FDT

Where a corporate tax entity incurs an FDT liability in a year for which it is a resident entity for imputation purposes, it is able to claim the whole or part of that amount as a tax offset against its income tax liability for that year or a subsequent year for which it is a resident entity for imputation purposes.

The maximum amount of the offset is the amount of the FDT liability. However, this is reduced where an entity has, directly or indirectly, made a franked distribution, and the deficit is, at least in part, attributable to franking debits that arose in the franking account under items **1**, **2**, **3**, **5** and **6** of the table in section 205-30 of the ITAA 1997 (but not item **2** alone) and that part is greater than 10% of the total credits that arose in the franking account for the year. This is called the 'FDT offset reduction rule'.

For certain late balancing entities, the year is the 12-month period ending on 30 June. Special provisions apply to these entities, which may affect the calculation of the offset.

Where the offset reduction rule applies, the tax offset is reduced by an amount equal to 30% of the portion of the deficit attributable to items **1**, **2**, **3**, **5** and **6** franking debits (see the table on the next page).

The amount of FDT liability able to be offset will not be reduced where:

- the entity is a private company with no previous income tax liability that satisfies certain criteria
- the Commissioner's discretion is exercised to allow the full offset because the deficit was due to events beyond the entity's control, or
- the entity did not have any item **1**, **3**, **5** or **6** debits in the franking account for the year the deficit arose.

If the letter **P** or **F** was shown at the code box in section A of this return, the offset will not be reduced and the amount that should be shown at **C** should be equal to the FDT liability shown at **B**.

If the letter **C** was shown at the code box in section A of this return, the reduced offset should be shown at **C**. However, the full amount of the offset will be allowed to a corporate tax entity that satisfies the residency requirement for imputation purposes if the Commissioner exercises the discretion to allow it.

More information on the situations where the offset reduction rule does not apply is available under the heading **You may be entitled to the full amount of your current year FDT offset** on page 3.

How to calculate the amount to include at **C** Offsettable portion of current year FDT

If the FDT liability attributable to items **1**, **2**, **3**, **5** and **6** of the table below is less than or equal to 10% of the total franking credits that arose in the franking account for the income year, then the full amount of FDT liability recorded at **B** by a corporate tax entity that is a resident entity for imputation purposes for the relevant year can be used to calculate its FDT offset because of the current year's deficit. This same amount should be recorded in section B at **C** **Offsettable portion of current year FDT**.

Franking debits in the franking account arise under section 205-30 of the ITAA 1997 when:

Item 1	An entity franks a distribution
Item 2	An entity receives a refund of income tax
Item 3	An entity franks a distribution in contravention of the benchmark rule
Item 4	An entity ceases to be a franking entity
Item 5	A distribution by one entity is substituted for a distribution by another entity
Item 6	A tax exempt bonus share is issued in substitution for a franked distribution
Item 7	The Commissioner makes a determination under paragraph 204-30(3)(a) of the ITAA 1997
Item 7A	An amount is transferred to an entity's share capital account in contravention of the share capital tainting rules
Item 7B	An entity chooses to untaint its share capital account
Item 9	A company buys back a membership interest in an on-market buy-back

Item **8** franking debits that arise when an entity is taken to have paid a dividend under Division 7A of Part III of the *Income Tax Assessment Act 1936* was repealed with effect from 1 July 2006 by *Tax Laws Amendment (2007 Measures No. 3) Act 2007* (79 of 2007).

Subject to the exceptions mentioned above and the special rule for late balancing entities, the amount that should be shown at **C** **Offsettable portion of current year FDT** is calculated using the following method.

- STEP 1** Work out the amount of FDT liability that the entity has incurred in the income year.
- STEP 2** Did any franking debits arise in your franking account under items **1**, **3**, **5** or **6** of section 205-30 of the ITAA 1997?
If yes, go to step 3.

If no, the FDT offset reduction does not apply. As a result, the amount of FDT liability from step 1 is the amount that should be shown at **C** **Offsettable portion of current year FDT** on the franking account tax return. This is the amount that can be claimed as a tax offset by a corporate tax entity that satisfies the residency requirement for imputation purposes.

- STEP 3** Work out the amount of FDT liability attributable to items **1**, **3**, **5** and **6**, plus any item **2** franking debits. To do this, add together the opening credit balance (if any) of the franking account and any franking credits that arose in the account for the year (see **A** **Credits that arose in your franking account**). Subtract from this amount the total of the items **1**, **2**, **3**, **5** and **6** debits.

If the result is zero or positive, the FDT offset reduction does not apply and the amount of FDT liability from step 1 can be claimed as a tax offset by a corporate tax entity that satisfies the residency requirement for imputation purposes. This is the amount that should be shown at **C** **Offsettable portion of current year FDT** on the franking account return.

If the result is negative, this is the amount of FDT liability attributable to items **1**, **2**, **3**, **5** and **6**. Go to step 4.

- STEP 4** If the step 3 amount for the year is negative and is less than or equal to 10% of the total franking credits that arose in the franking account for the same year, the FDT offset reduction does not apply and the amount of FDT liability from step 1 can be claimed as a tax offset by a corporate tax entity that satisfies the residency requirement for imputation purposes. This is the amount that should be shown at **C** **Offsettable portion of current year FDT** on the franking account return.

If the step 3 amount for the year is negative and is greater than 10% of the total franking credits that arose in the franking account for the same year, the FDT offset reduction applies as follows:

Work out 30% of the step 3 amount. This is the reduction amount.

Take the reduction amount away from the amount of FDT liability at step 1.

The result is the amount that can be claimed as a tax offset by a corporate tax entity that satisfies the residency requirement for imputation purposes. This is the amount that should be shown at **C** **Offsettable portion of current year FDT** on the franking account return.

The amount shown at **C** of this franking account tax return is only step 1 in the calculation to determine the whole amount that a corporate tax entity that satisfies the residency requirement for imputation purposes is entitled to as an FDT offset against any income tax liabilities arising in the *Company tax return 2012*. See the *Company tax return instructions 2012* (NAT 0669) for more information on how to calculate this amount.

Corporate tax entities that do not satisfy the residency requirement for imputation purposes are not entitled to the offset. However, they should include at **C** the amount calculated in accordance with the above method.

EXAMPLE 3

EKW Ltd has a deficit in its franking account at the end of the 2011–12 income year of \$80,000 and is liable to FDT. The balance of its franking account at 1 July 2011 was \$10,000 and the only franking credits to arise in its franking account during the income year to 30 June 2012 were PAYG instalments of \$500,000 that were paid by the company. The company made the following franking debits to its franking account:

- \$510,000 of franking credits on distributions (item 1 franking debits)
- \$60,000 as a consequence of a refund of tax (item 2 franking debits), and
- \$20,000 as a consequence of the Commissioner making a determination under the streaming provisions (item 7 franking debits).

Because franking debits arose in the company's franking account under item 1 of the table in section 205-30 of the ITAA 1997 (see the list on page 7), the FDT attributable to item 2 franking debits will also be taken into account in determining whether the FDT offset reduction applies and if so the amount of the reduction.

The FDT attributable to items 1 and 2 franking debits is \$60,000 (\$10,000 + \$500,000 – \$510,000 – \$60,000) which exceeds 10% of the franking credits that arose in the company's franking account for the income year. Therefore, the 30% FDT offset reduction will apply to the FDT that is attributable to the items 1 and 2 franking debits.

Consequently, the company is entitled to a tax offset of \$62,000 (that is \$80,000 minus (\$60,000 × 30%)).

If debits arose in the company's franking account under items **1**, **3**, **5** or **6** of the table in section 205-30 of the ITAA 1997, ensure you have completed **K**. For more information, see **Debits not subject to the FDT offset reduction** in the next column.

DEBITS NOT SUBJECT TO THE FDT OFFSET REDUCTION

Franking debits arising under items **4**, **7**, **7A**, **7B** or **9** and in some circumstances item **2** of the table in section 205-30 of the ITAA 1997 will not be taken into account when determining whether the FDT offset reduction applies and the amount of the reduction. See the table on page 7 for details of the debits relating to these items.

Franking debits arising under items **10**, **11** and **12** of the table in section 205-30 (in relation to friendly societies) will also not be taken into account.

Show at **K** the amount of debits that arose in the corporate tax entity's franking account under items **4**, **7**, **7A**, **7B** and **9** of the table in section 205-30 of the ITAA 1997 for the period to which this franking account tax return relates.

If no franking debits arose in the corporate tax entity's franking account under items **1**, **3**, **5** or **6** of the table in section 205-30 of the ITAA 1997, also show at **K** any franking debits that arose under item **2** – franking debits that arise when the entity receives a refund of income tax.

OVER-FRANKING TAX

Where the franking percentage for a distribution exceeds the benchmark franking percentage, liability for OFT arises unless the Commissioner has made a determination permitting the over-franking (or the corporate tax entity is a listed public company that satisfies certain criteria so that it is not subject to the benchmark rule, or is a 100% subsidiary of such a company).

Show at **D** the amount of OFT worked out using the following formula:

$$\text{franking \% differential} \times \text{amount of the frankable distribution} \times \frac{30}{70}$$

where the franking % differential is the difference between the franking percentage for the frankable distribution and **either**:

- the entity's benchmark franking percentage for the franking period in which the distribution is made, **or**
- the franking percentage permitted by the Commissioner in a determination allowing the corporate tax entity to depart from the benchmark rule.

EXAMPLE 4

Salomon Pty Ltd made a distribution of \$500 to its members and allocated franking credits of \$214, resulting in a franking percentage of 100%. The benchmark franking percentage for the franking period was 50%. As Salomon Pty Ltd has franked the distribution to more than the benchmark percentage, it will be liable to OFT calculated as follows:

$$(100\% - 50\%) \times \$500 \times \frac{30}{70} = \$107$$

The \$107 OFT will be shown in **D**.

EXAMPLE 5

Late balancing entity that had its FDT liability determined on 30 June and now has an OFT liability

Felix Ltd is an unlisted public company that has an approved substituted accounting period ending on 30 September 2012 in lieu of 30 June 2012. Felix Ltd, being a late balancing corporate tax entity, elected to have its FDT liability determined on a 30 June basis. On 30 June 2012 Felix Ltd had a deficit balance of \$100 in its franking account. Felix Ltd is required to lodge a *Franking account tax return 2012* disclosing this liability on or before 31 July 2012.

In addition to this, Felix Ltd had an OFT liability of \$150 for its first franking period (1 October 2011 to 31 March 2012) and then \$200 for its second franking period (1 April 2012 to 30 September 2012). Felix Ltd is required to lodge a subsequent *Franking account tax return 2012* disclosing this OFT liability of \$350 at **D**, by 31 October 2012. In addition, Felix Ltd must print **X** in the **Yes** box at section A: **Is this a subsequent franking account tax return for the income year?**

TOTAL TAX PAYABLE

After completing section B, add up the amounts shown at **B** (or, if the franking account tax return is a further return, at **F**) and **D** and write the total at **E Total tax payable**. This is the amount the entity has to pay. See **Payment slip**, on page 10; and **Lodgment and payment requirements**, on page 11.

The amount completed at section B, **A Credits that arose in your franking account** does not necessarily equal the amount on the *Company tax return 2012* at **J Franking credits** item 7. Amounts in **A** relate to all the franking credits that arose in the franking account during the income year. By contrast, **J** item 7 in the company tax return relates only to franking credits you received that were attached to franked distributions received during the income year.

The amount completed at section B, **C Offsettable portion of current year FDT** in this return will not necessarily be the same as the amount shown at **E Franking deficit tax offset** in the **Calculation statement** of the *Company tax return 2012*. See the *Company tax return instructions 2012* for information on how to complete **E Franking deficit tax offset**.

SECTION C

SIGNIFICANT VARIATION IN BENCHMARK FRANKING PERCENTAGE

FRANKING PERIOD

A franking period for a corporate tax entity that is a private company is the same as its income year.

For corporate tax entities that are not private companies, there are ordinarily two franking periods in an income year. The first franking period is the first six months beginning at the start of the entity's income year; and the second franking period will be the remainder of the income year.

WAS THERE A SIGNIFICANT VARIATION IN BENCHMARK FRANKING PERCENTAGE BETWEEN FRANKING PERIODS?

Where a corporate tax entity has a significant variation in its benchmark franking percentage between franking periods, it has an obligation to disclose this information to the Commissioner (unless it is a listed public company that satisfies certain criteria, or is a 100% subsidiary of such a company). A significant variation will occur where the benchmark franking percentage for the current franking period has increased or decreased by more than the following amount:

$$\begin{array}{l} \text{number of franking periods starting} \\ \text{immediately after the last franking} \\ \text{period in which a frankable distribution} \\ \text{was made (the last relevant franking} \\ \text{period) and ending at the end of the} \\ \text{current franking period} \end{array} \times 20 \text{ percentage points}$$

For a corporate tax entity that makes a frankable distribution in every franking period, the effect of the above formula is that a significant variation will occur where the benchmark franking percentage increases or decreases between franking periods by more than 20 percentage points.

Examples 6 and 7 on the next page will help you to work out if there was a significant variation in your entity's benchmark franking percentage between franking periods.

If there was a significant variation, print **X** in the **Yes** box at **Was there a significant variation in benchmark franking percentage between franking periods?** on the *Franking account tax return 2012*. Complete the rest of section C.

For the purposes of recording the benchmark franking percentage at **G** to **J**, the value stated should be worked out to two decimal places, rounding up if the third decimal place is 5 or more.

Listed public companies that satisfy the criteria set out in subsection 203-20(1) of the ITAA 1997, and 100% subsidiaries of such companies, do not need to complete section C.

If there was no significant variation, print **X** in the **No** box at **Was there a significant variation in benchmark franking percentage between franking periods?** You do not have to complete the rest of section C.

EXAMPLE 6

Corporate tax entity with two franking periods

XYZ Ltd, an unlisted public company, has an income year which started on 1 July 2011 and ended on 30 June 2012. Its franking periods and benchmark franking percentage for the year ended 30 June 2012 were:

	Franking period	Benchmark franking percentage
Franking period 1	1 July 2011 to 31 December 2011	50.455
Franking period 2	1 January 2012 to 30 June 2012	100.000

Franking period 1 is the **last relevant franking period** and franking period 2 is the **current franking period**.

The entity's franking percentage for franking period 2 is 100%. This is an increase in the benchmark franking percentage for franking period 1 by an amount that is greater than 20 percentage points, resulting in a significant variation in the benchmark franking percentage. XYZ Ltd has an obligation to disclose this information on the franking account tax return. It would print **X** in the **Yes** box at **Was there a significant variation in benchmark franking percentage between franking periods?** XYZ Ltd would complete the benchmark franking period boxes as follows:

Benchmark franking period		Benchmark franking percentage	
Franking period A	Day Month Year to Day Month Year	G	50 • 46
Franking period B	Day Month Year to Day Month Year	H	100 • 00

EXAMPLE 7

Private company

Dombey Pty Ltd is a private company that has an income year from 1 July 2011 to 30 June 2012. A private company has the same franking period as its income year – therefore, for the 2011–12 income year, Dombey Pty Ltd's first franking period was from 1 July 2010 to 30 June 2011. During the 2010–11 income year Dombey Pty Ltd's benchmark franking percentage was 60%.

The company's second franking period is 1 July 2011 to 30 June 2012. During this income year, Dombey Pty Ltd's benchmark franking percentage was 30%. Dombey Pty Ltd would have to complete section C in the franking account tax return because its benchmark franking percentage decreased by more than 20 percentage points in the franking period for the 2011–12 income year. Dombey Pty Ltd would print **X** in the **Yes** box at **Was there a significant variation in benchmark franking percentage between franking periods?** Dombey Pty Ltd would complete the benchmark franking period boxes as follows:

Benchmark franking period		Benchmark franking percentage	
Franking period A	Day Month Year to Day Month Year	G	60 • 00
Franking period B	Day Month Year to Day Month Year	H	30 • 00

PAYMENT SLIP

On the payment slip provided, print your entity's name, tax file number (TFN) and Australian business number (ABN). In the **Amount payable** box, write the amount you recorded at section B, **E Total tax payable**. This is the amount of FDT and OFT that is to be paid. See **Lodgment and payment requirements** on the next page for details on how to pay this amount.

DECLARATION AND OTHER INFORMATION

SIGNING THIS TAX RETURN

The law requires that an authorised person sign this tax return. An authorised person for this purpose may be the public officer of the company or an agent duly authorised by the company.

Where an agent provides this tax return and accompanying information (where applicable), the company must prepare, and give to the agent, a signed declaration stating that:

- the company authorises the agent to give this tax return and accompanying information (where applicable) to the Commissioner, and
- the information provided to the agent for preparation of the tax return is true and correct.

The company must retain such a declaration or a copy of it for a period of five years after it is made.

Penalties for failing to lodge documents on time and general interest charge

The law imposes a penalty on a corporate tax entity that does not lodge this tax return by the due date. It also imposes a general interest charge on an entity that fails to pay FDT and/or OFT by the due date.

The Commissioner has the discretion to remit any penalty in whole or in part. If the entity considers the penalty should be remitted, a statement should be attached to this tax return explaining why remission should be granted.

The Commissioner also has the discretion to remit any general interest charge in whole or in part.

A request for the remission of the general interest charge should be made:

- in writing, and
- outlining fully the circumstances that led to the delay in payment.

Send the request to:

Fax: All states **1300 139 045**

Mail: All states

Australian Taxation Office
PO Box 327
ALBURY NSW 2640

LODGMENT AND PAYMENT REQUIREMENTS

WHEN TO LODGE

Generally, the franking account tax return must be lodged and the FDT liability and/or OFT liability must be paid on the last day of the month following the end of the income year.

Late balancing corporate tax entities that elect to have their FDT liability determined on a 30 June basis must lodge a franking account tax return by 31 July each year. This date is also the date by which the FDT is payable. Note that there are different lodgment obligations in relation to OFT liabilities and disclosure obligations for these entities. For more information, see **Late balancing corporate tax entities that elect to have their FDT liability determined on 30 June** on page 1.

There are some different lodgment and payment rules that arise in relation to certain refunds received within three months after:

- the end of the income year (or the period ending 30 June for certain late balancing corporate tax entities), or
- a corporate tax entity ceases to be a franking entity.

For more information on these different lodgment and payment rules, see **A refund of income tax affecting a franking deficit tax liability** on page 5.

Subsidiary members of a consolidated group, where the head company has not notified the ATO of the group's formation, may still be obliged to lodge a franking account tax return and pay any franking tax liability. Until the ATO receives notification of the group's formation, this obligation will still exist. If the subsidiary member believes it will not have an obligation to lodge a franking account tax return because it will be a member of a consolidated group for the full income year, it may request a deferral of time to lodge.

If the company does not subsequently form part of a consolidated group, the company will have to lodge a return and pay any franking tax amount owing. General interest charges may be applied back to the original due date.

If the company lodges a return and pays its franking tax liability on the due date, and, subsequently, the head company notifies the ATO that the company was a subsidiary member for the full year, the subsidiary member will need to contact the ATO to amend the return to zero and request a refund of any franking tax amount paid for this return.

WHERE TO LODGE

Post your franking account tax return with your payment to:

**Australian Taxation Office
Locked Bag 1793
PENRITH NSW 1793**

HOW TO PAY

We offer you a range of convenient payment options, both in Australia and overseas.

Your payment needs to reach us on or before its due date. Check your financial institution's processing deadlines to avoid making a late payment.

What is my EFT code or PRN?

Your EFT code or PRN is the reference number. It is printed directly above the barcode on your payment slip.

If you pay using BPAY®, credit card or direct credit you will need this number.



BPAY®

Make a payment directly from your cheque or savings account to us using your financial institution's phone or internet banking service.

Details you need

Biller code: 75556

Reference: Your EFT code or PRN.

BPAY payments made out of hours, on a weekend or on a public holiday will not reach us until the next working day.

® Registered to BPAY Pty Ltd ABN 69 079 137 518

Credit card

Credit card payments can be made online or by phone. To make a credit card payment you will need:

- a current Visa, MasterCard or American Express card
- your EFT code or PRN.

A card payment fee applies to transactions made using the credit card payment service.

To make credit card payments online or for further information, go to **www.ato.gov.au/howtopay**.

To make credit card payments by phone, call **1300 898 089**

Direct credit

Transfer your payment to us online from your cheque or savings account.

Details you need

Bank: Reserve Bank of Australia

BSB: 093 003

Account number: 316 385

Account name: ATO direct credit account

Reference: Your EFT code or PRN

Direct credit payments made out of hours, on a weekend or public holiday will not reach us until the next working day.

Direct debit

Have your payment automatically deducted from a cheque or savings account.

Details you need

For a verbal direct debit payment arrangement after the due date, phone us on **13 11 42**.

For all other direct debit requests, complete the *Direct debit request* (NAT 2284) form and return it to us.

To access the form:

- visit **www.ato.gov.au/howtopay**
- phone **1800 802 308**, 8.00am to 6.00pm, Monday to Friday
- email **eft-information@ato.gov.au**

To ensure your payment reaches us on or before its due date, allow at least seven (7) working days for your direct debit to be activated.

Mail

Cheques and money orders should be for amounts in Australian dollars and payable to the 'Deputy Commissioner of Taxation'. Cheques should be crossed 'Not Negotiable' and must not be post-dated.

You should also include your payment slip or a note that states your:

- full name
- address and telephone number
- account identifier: tax file number (TFN), Australian business number (ABN), client identification number etc
- payment type: BAS payment, income tax, HELP etc.

Mail your payment and payment slip or note to:

Australian Taxation Office
Locked Bag 1793
PENRITH NSW 1793

Do not use pins, staples, paper clips or adhesive tape.

Do not send cash.

Allow sufficient time for your payment to reach us on or before the due date.

Australia Post

Payments cannot be made at Australia Post using the payment slip on this tax return.

If you need more information

- phone **1800 815 886** 8.00am to 6.00pm, Monday to Friday
- email **payment@ato.gov.au**

MORE INFORMATION

WEBSITE

Go to **www.ato.gov.au** for general tax information and to download publications and rulings.

PUBLICATIONS

To get an ATO publication

If you are not a tax agent

- go to **www.ato.gov.au/publications** for publications, taxation rulings, practice statements and forms
- phone **1300 720 092**
- visit one of our shopfronts

For our shopfront addresses, you can go to our website.

If you are a tax agent

- go to **http://taxagents.iorder.com.au**
- order by fax on **1300 361 462**

PHONE

Business

13 28 66

Information about business income tax, fringe benefits tax (FBT), fuel tax credits (FTC), goods and services tax (GST), pay as you go (PAYG) and activity statements, including lodgment and payment, accounts and business registration (including Australian business number and tax file number), and dividend and royalty withholding tax.

Tax agents

13 72 86

For enquiries from registered tax agents

Individual

13 28 61

Individual income tax and general personal tax enquiries

Superannuation

13 10 20

OTHER SERVICES

If you do not speak English well and need help from the ATO, phone the Translating and Interpreting Service (TIS) on **13 14 50**.

If you are deaf or have a hearing or speech impairment, phone the ATO through the National Relay Service (NRS) on the numbers listed below, and ask for the ATO number you need:

- TTY users, phone **13 36 77**. For ATO 1800 free call numbers, phone **1800 555 677**.
- Speak and Listen (speech to speech relay) users, phone **1300 555 727**. For ATO 1800 free call numbers, phone **1800 555 727**.
- Internet relay users, connect to the NRS at **www.relayservice.com.au**



Section C Significant variation in benchmark franking percentage

Was there a significant variation in benchmark franking percentage between franking periods?

Yes ☐

No ☐

Print **X** in the appropriate box

If **yes**, complete the rest of this section.
If **no**, complete the declaration.

Benchmark franking period

Franking period **A** to

Franking period **B** to

Franking period **C** to

Franking period **D** to

Benchmark franking percentage

G .

H .

I .

J .

Declaration

I declare that the information given on this tax return and in the accompanying documents (where applicable) is true and correct, and that I am authorised to make this declaration.

Authorised person's signature

Date

Title

Authorised person's name

Hours taken to prepare and complete this tax return

Daytime phone number

Area code Number

